



Washtenaw Community College

Testimony

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Overview: Expansion of Community College Investment Opportunities

Senate Appropriations Committee

December 10, 2014

Thank you Chairman Haveman, and members of the committee, for the opportunity to speak to you today on this important legislation. And thank you for your commitment to community colleges. Thank you to Senator Booher, for your support and the work you and your staff put into drafting this legislation.

Today, you are considering Senate Bill 1088, which would allow community colleges to yield a greater return on investments with our current funds by allowing us to invest in certain state and local obligations. This legislation is designed to better utilize existing college funds to support our students, maintain low tuition and lower the cost of education at community colleges.

According to the community college act, Washtenaw Community College and all other community colleges are only allowed to invest general fund available assets in a narrow band of investments, primarily state and federal obligations. This statute severely limits the college's ability to implement a long term investment strategy which provide yields commensurate with changing market conditions, assuming investment risk reasonable for fixed income instruments. This is contrasted with the investment options afforded to cities, townships and other state entities, which are allowed to explore more advantageous investment options, particularly the ability to invest in: "Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service."

The current language in Public Act 20, which governs the investments of these entities, provides other the ability to achieve higher yields, at a reasonable risk. These higher yields are attained through the active management of a more diverse investment portfolio, which can include state municipality obligations, along with Michigan & US Treasury obligations.

The benefits of Senate Bill 1088 include the potential for improved investment yields on community college invested general fund assets, which in turn may increase annual general fund revenues of the college. This increased revenue may therefore provide for additional resources to support college operations and/or reduce the need for future tuition rate increases and thus lower the cost of education at Washtenaw Community College and community colleges across the state. Investing locally will also allow community colleges to further support our local communities.

Thank you so much for your consideration.



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Senate Bill 1088
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Request Summary

Revise the Community College Act (CCA) provision related to allowable forms of investments to match those allowed under the Investment of Surplus Funds of Political Subdivisions Act which applies to public corporations. These revisions would allow for investments in obligations of the State of Michigan, including its political subdivisions. Currently, the CCA does not allow of investments in political subdivisions of the State of Michigan, only obligations of the State.

Discussion

According to the CCA, Washtenaw Community College (and all other community colleges) is only allowed to invest general fund available assets in a narrow band of investments. Per CCA Section 142.1 (a): "...investment is restricted to the following: (A) Bonds, bills, or notes of the United States, or of an agency or instrumentality of the United States, or obligations of this state." While the CCA provides further definition of how to implement this investment strategy within the context of relevant market instruments, the CCA severely limits the college's ability to implement a long term investment strategy which provide yields commensurate with changing market conditions, assuming investment risk reasonable for fixed income instruments.

This is contrasted with the investment options afforded to public corporations governed by the "Investment of surplus funds of political subdivisions, Act 20 of 1943", which has been updated over the years to reflect more advantageous investment options, particularly the ability to invest in: "Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service." The underscored PA 20 language provides other public corporations such as cities and townships the ability to achieve higher yields, at a reasonable risk, given the fixed income investment restriction imposed on community colleges. These higher yields are attained through the active management of a more diverse investment portfolio which can include state municipality obligations, along with Michigan & US Treasury obligations.

The benefits of this proposed revision include the potential for improved investment yields on community college invested general fund assets, which in turn may increase annual general fund revenues of the college. This increased revenue may therefore provide for additional resources to support college operations and/or reduce the need for future tuition rate increases and thus lower the cost of education at Washtenaw Community College.

Recommendation

Section 142.(1) of the Community College Act should be revised to permit community colleges the opportunity to invest in obligations of political subdivisions of the State of Michigan.

The College intends to use the proposed modification to CCA331 to enhance and diversify its portfolio. The portfolio would be enhanced through potential additional yields, greater diversification and more investment choices by including Michigan municipality fixed income vehicles within the college's investment mix. Yields on these types of investments sometimes may provide higher interest rates than that of the current comparable treasury and agency investments with similar maturities. All municipal bonds proposed for investment would be investment grade and with maturities that align with the College's long-term investment strategy. An example of this type of investment would be a municipal bond that is currently available for Muskegon County. The bond has a yield to call of 3.90% with an expected call date of 2024. This compares to a 10 year treasury investment rate of 2.40%. This municipal investment has an A rating. Although not allowed under the current CCA331, this type of investment is available under PA20 (such as cities and townships) and would be allowable under the proposed new language presented for CCA331.